District Conditions

The performance of the Ninth District's economy in early 1981 has not caused us to change the forecast that was presented in our last *Quarterly Review.** We are still predicting that, during 1981, prices will increase 10 percent and employment will increase roughly 1.5 percent. Our inflation forecast was based on historical trends which should continue unless there are major policy changes that affect the rate of inflation. Our employment forecast, however, was not entirely based on previous trends. We projected that the increase in employment would be smaller than the increase occurring after the two previous national recessions because we expected high interest rates to restrain lumbering, mining, and manufacturing activity. We anticipated that much of the improvement in employment would come not from those industries, but from the farm sector.

To arrive at our forecast for the district, we made some assumptions about the nation's economy and its relationship to the district's economy. The data for the year so far do not exactly confirm our assumptions, but they do not call for any clear change in our forecast either, because the data that are higher than projected are roughly balanced by the data that are lower than projected. Despite some contrary signs, our forecast still seems reasonable.

Prices and Employment: Some Surprises

So far this year, price increases have been under our forecast. Between December and February, the Minneapolis–St. Paul consumer price index rose at a 4 percent annual rate. This was unusually low principally because home prices declined, but we do not expect them to continue to decline throughout the year.

So far this year, the district's employment growth has been above our forecast. Seasonally adjusted, employment rose sharply between December and January, and then it rose again in February. January was the first month in the last six that the district's employment didn't decline on a year-to-year basis. One explanation for this is that high interest rates in the national economy so far have not caused district firms to cut back as much as we thought. Not only has there been growth in employment, there has been a generally downward trend in the number of layoffs at district firms. A decline in layoffs began last May, and in early 1981 layoffs were well below last spring's very high level. The district's economy is not alone in its better-than-expected performance. Economic forecasters were also surprised by increases in national retail sales and employment in January and February.

The Farm Sector: Some Concerns

One important sector of the district's economy—the farm sector—does not seem to be doing as well as we had predicted, however. Agricultural conditions do not appear to be as strong as expected. Between December and March, prices received by farmers fell at a 10 percent annual rate, and in March farm prices dropped back to last August's level. In addition, drought could curb crop production. Farmers currently plan to seed the same number of acres this spring as a year ago, but if the moderate-to-severe drought conditions currently being experienced in most of the district's agricultural areas persist, they could cut back their planting or have reduced yields. Although ample spring rains could eliminate these drought conditions, drought will be the big concern of the district's agricultural producers until rains come.

Concerns about low agricultural prices and drought have held down farm-related spending and employment. Sixty-four percent of the banks responding to our January Agricultural Credit Conditions Survey looked for farm spending to be lower than it was a year earlier. With farmers cutting back their spending, farm-related businesses have curbed their hiring, and employment

*The Ninth Federal Reserve District consists of Minnesota, Montana, North and South Dakota, northwestern Wisconsin, and the Upper Peninsula of Michigan.

outside the Minneapolis–St. Paul area did not increase in early 1981. If the district's agricultural conditions do not improve, we will have to lower our forecast of employment growth. This early in the year, though, we feel that our predicted 1.5 percent increase in employment is still attainable.

The views expressed herein are those of the author and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.